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Comptroller General  
of the United States

United States General Accounting Office  
Washington, DC 20548

October 5, 2001

Congressional Requesters

Subject: Financial Management: Assessment of the Airline Industry's Estimated  
Losses Arising From the Events of September 11

In the wake of the September 11, 2001, terrorist attacks on the United States, the airline industry<sup>1</sup> has estimated significant losses resulting from the temporary shutdown of the nation's airspace and the severe drop in passenger traffic since the attacks. In response, on September 22, 2001, the President signed the Air Transportation Safety and System Stabilization Act,<sup>2</sup> which provides \$5 billion in emergency assistance to compensate the nation's air carriers for these losses.

Specifically, the law stipulates that an amount equal to \$5 billion will be made available to compensate air carriers for direct losses incurred beginning September 11 as a result of any federal ground stop order issued by the Secretary of Transportation, and incremental losses incurred beginning September 11 through December 31, 2001, as a direct result of the terrorist attacks. Additionally, the law allocates the \$5 billion between passenger-only or combined passenger and cargo carriers (passenger carriers) and cargo-only carriers (cargo carriers) and establishes a maximum level of compensation for each class of carrier. Passenger carriers were allocated \$4.5 billion while cargo carriers were allocated \$.5 billion. The law also directs that the maximum amount of compensation paid to each carrier may not exceed the lesser of (1) its allocated share of the \$4.5 billion (passenger carriers) or \$.5 billion (cargo carriers) or (2) the actual direct and incremental losses incurred by the carrier as a result of the September 11 terrorist attacks.

In letters dated September 26 and 27, 2001, you asked that we (1) perform an analysis of the data and methodologies used by the airline industry to estimate the losses through December 31, 2001, stemming from the terrorist attacks to determine whether there is a reasonable basis for the estimate and (2) assess the overall reasonableness of the \$5 billion compensation package. This letter summarizes the information we provided during our September 28, 2001, briefing pursuant to these requests. The briefing slides, which provide more details about our analysis, are attached.

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<sup>1</sup>The airline industry estimates were prepared by the Air Transport Association, a trade organization representing the principal U.S. airlines.

<sup>2</sup>Public Law 107-42.

## Report Documentation Page

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<b>Abstract</b> In the wake of the September 11, 2001, terrorist attacks on the United States, the airline industry 1 has estimated significant losses resulting from the temporary shutdown of the nations airspace and the severe drop in passenger traffic since the attacks. In response, on September 22, 2001, the President signed the Air Transportation Safety and System Stabilization Act, 2 which provides \$5 billion in emergency assistance to compensate the nations air carriers for these losses.		
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## **Results in Brief**

Overall, our analysis indicates that there is a reasonable basis to assume that the airline industry will incur losses resulting from the terrorist attacks of at least \$5 billion and possibly more through December 31, 2001. The airline industry's "best case" scenario, prepared by the Air Transport Association (ATA), estimated losses of \$10.1 billion by the end of the calendar year.<sup>3</sup> Our high-level analysis,<sup>4</sup> using various revenue and cost savings assumptions, indicates possible losses in the range of \$6.5 billion to \$10.5 billion. The key differences between our estimates and ATA's relate primarily to

- ATA including cargo and passenger carriers in their revenue base, whereas we only included passenger carriers;
- ATA assuming greater reductions in "other revenue" than we did; and
- ATA assuming lower cost savings relating to fuel and labor.

While it is reasonable to assume that overall industry losses will amount to at least \$5 billion, carrier-by-carrier losses are likely to vary significantly from the formula-derived allocations of the \$5 billion. Therefore, some carriers may experience losses higher than their individual formula amount, while others' losses may be lower. Because of this, the Department of Transportation (DOT) is initially disbursing only 50 percent of the allocations, and is currently assessing how best to provide for any necessary adjustments to the amounts paid to each carrier. At present, there is no provision in the law to reallocate any portion of the formula amount for an individual carrier that is in excess of actual losses incurred by that carrier to other carriers whose actual losses may exceed their allocated amounts. There is also no provision to reallocate any amounts between cargo and passenger carriers should one group's actual losses not reach its total allocated share of the compensation. As you requested, we will be assessing the actual losses incurred by the major carriers compared to their allocations and report to you by July 1, 2002.

## **Scope and Methodology**

We analyzed the ATA's estimate of the losses expected as a result of the terrorist attacks to determine the basis for its estimate. We also prepared a high-level independent estimate of these expected losses using various revenue and cost savings assumptions. Our analysis focused on passenger carriers and did not attempt to estimate losses of cargo carriers. We know that cargo carriers experienced some losses as a result of the events of September 11. At the same time, cargo volumes should not be subject to the same downward influences as passenger volumes (i.e., passenger apprehension to fly). The data and assumptions used in our analysis were

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<sup>3</sup>This estimate is based on revenue projections versus cash projections. Cash projections were used in the industry's earlier estimate of losses, which were higher.

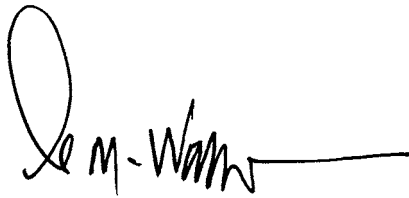
<sup>4</sup>Our analysis was based on aggregate passenger carrier data for key revenue and expense items that are most likely to be impacted by the events of September 11.

derived from a number of sources including the DOT's Bureau of Transportation Statistics (BTS) and airline 10Q Securities and Exchange Commission filings. In addition, we interviewed a number of airline industry analysts and discussed their assessments of the airline industry's projected revenues and losses following the attacks. Lastly, we monitored press releases put forth by the airline industry and various analysts related to the estimated loss.

We did not independently verify the information provided by ATA, BTS, or the various industry analysts. We caution that many of the assumptions used in our analysis (e.g., those for revenues, industry layoffs and fuel costs) can change rapidly thereby significantly affecting our estimates of the airlines' losses.

We conducted our review during the week of September 23, 2001, in accordance with generally accepted government auditing standards.

We are sending copies of this letter to interested congressional committees. The letter is also available on GAO's home page at <http://www.gao.gov>. If you have any questions about this letter, please contact Linda Calbom, Director, Financial Management and Assurance, at (202) 512-9508 or by e-mail at [calboml@gao.gov](mailto:calboml@gao.gov). Key contributors to this assignment are listed in enclosure II.

A handwritten signature in black ink, appearing to read "D. M. Walker", followed by a horizontal line.

David M. Walker  
Comptroller General  
of the United States

Enclosures

### **Congressional Requesters**

The Honorable Robert C. Byrd  
Chairman  
Committee on Appropriations  
United States Senate

The Honorable Ernest F. Hollings  
Chairman  
Committee on Commerce, Science and Transportation  
United States Senate

The Honorable John D. Rockefeller IV  
Chairman, Subcommittee on Aviation  
Committee on Commerce, Science and Transportation  
United States Senate

The Honorable Ron Wyden  
Subcommittee on Aviation  
Committee on Commerce, Science and Transportation  
United States Senate

The Honorable Lloyd Doggett  
The Honorable John J. LaFalce  
House of Representatives

**September 28, 2001, Briefing to Congressional Requesters**



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**Assessment of the Airline Industry's Estimated  
Losses Arising From the Events of September 11**

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Briefing for Congressional Requesters  
September 28, 2001

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- On September 22, 2001, the President signed the Air Transportation Safety and System Stabilization Act (P. L. 107-42) to compensate air carriers for losses incurred as a result of the terrorist attacks on September 11.
- Section 101(a)(2) of the law stipulates that \$5 billion will be made available to compensate air carriers for
  - direct losses incurred beginning September 11 as a result of any federal ground stop order issued by the Secretary of Transportation and
  - incremental losses incurred beginning September 11 through December 31, 2001 as a direct result of the terrorist attacks.<sup>1</sup>
- Section 103(b)(2) indicates that the maximum compensation for passenger-only or combined passenger and cargo carriers ("passenger carriers") is \$4.5 billion and the maximum for cargo-only carriers ("cargo carriers") is \$0.5 billion.

<sup>1</sup>For purposes of this briefing, we refer to both of these types of losses as "estimated losses."



You requested that we

- analyze the data and methodologies used by the airline industry to estimate its losses through December 31, 2001, stemming from the September 11, 2001, terrorist attacks to determine whether there is a reasonable basis for such estimates and
- assess the overall reasonableness of the \$5 billion compensation package compared to our high-level estimates of industry losses.





## Scope and Methodology

To meet our objectives, we

- performed an analysis of Air Transport Association<sup>2</sup> (ATA) information to determine the basis for its loss estimates,
- prepared a high-level independent estimate of the amount of losses for the period from September 11, 2001 through December 31, 2001 based on analysis of aggregate passenger carrier data for key revenue and expense items that are most likely to be impacted by the events of September 11,
- conducted interviews with industry analysts to obtain external assessment information about industry revenues and loss estimates,
- monitored press releases of industry members and analysts that relate to estimated losses, and
- provided draft pages of ATA-attributed information to ATA and incorporated its clarifying changes as appropriate.

We conducted our review during the week of September 23, 2001, in accordance with generally accepted government auditing standards.

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<sup>2</sup> ATA is a trade organization representing the principal U.S. airlines.



The following should be noted.

- The data used in our high-level analysis were derived from various sources including the Department of Transportation (DOT), airline press release information, discussions with industry analysts, and airline 10Q filings with the Securities and Exchange Commission. We did not independently verify any of this information.
- Many of the assumptions used in our analysis are subject to rapid change (e.g., those for industry layoffs, load factors, and fuel costs), which could significantly affect our high-level estimate.
- Our high-level analysis focused on passenger carriers only and thus did not consider estimated losses of cargo carriers.



Industry Estimate

## Industry Estimated Losses for Passenger and Cargo Carriers (In millions, pretax)

### Optimistic Projection<sup>1</sup>

	Sept 11 - Sept 14	Sept 15 - Sept 30	Q/E Dec 31	Total
Revenue Decrease	\$1,320.0	\$2,904.0	\$7,756.0	<b>\$11,980.0</b>
Net Cost Savings	0.0	0.0	(1,853.0)	<b>(1,853.0)</b>
Net Estimated Loss	<b>\$1,320.0</b>	<b>\$2,904.0</b>	<b>\$5,903.0</b>	<b>\$10,127.0</b>

Source: ATA. Analysis is based on revenue projections versus cash projections. Cash projections were used in ATA's earlier loss estimates, which were higher.

(1) Per ATA, this is considered to be its "best case" estimate of industry losses through 12/31/01.



Industry Estimate

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Key Industry Assumptions:

Revenue: Used a daily industry total operating revenue number of \$330 million as a baseline,

4-day revenue decline - 100% of baseline

16-day revenue decline - 55% of baseline

4th quarter revenue decline - 25% of baseline

Cost Savings - 4th Quarter:

Personnel - No net cost reduction anticipated through December 31.

Fuel savings - 15% of capacity reduction (about 3% of revenue reduction).

Other variable costs - 25% of revenue reduction for passenger carriers. 10% of revenue reduction for cargo carriers.

No anticipated increases in fuel prices, security, or interest costs.

Source: ATA

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GAO Estimate

## GAO Estimate of Losses for Passenger Carriers (In millions, pretax)

### Scenario #1 (Assumes 4th Quarter Revenue Decline of 25%)

	Sept 11 - Sept 14	Sept 15 - Sept 30	Q/E Dec 31	Total
Revenue Decrease	\$1,163.1	\$2,129.7	\$5,669.9	<b>\$8,962.7</b>
Net Cost Savings				
Fuel	(174.9)	(144.4)	(830.5)	<b>(1,149.8)</b>
Personnel	0.0	0.0	(396.6)	<b>(396.6)</b>
Other	0.0	(255.6)	(680.4)	<b>(936.0)</b>
Total Cost Savings	<u>(174.9)</u>	<u>(400.0)</u>	<u>(1,907.5)</u>	<u><b>(2,482.4)</b></u>
Net Estimated Loss	<u><b>\$988.2</b></u>	<u><b>\$1,729.7</b></u>	<u><b>\$3,762.4</b></u>	<u><b>\$6,480.3</b></u>

Source: GAO analysis of DOT Form 41 data.



GAO Estimate

Key GAO Assumptions:

Revenue: Baseline calculated using passenger carrier revenue for the same period last year adjusted for year-over-year change from previous quarter.

4-day revenue decline - 100% of baseline total operating revenues.

16-day revenue decline - 50% of baseline passenger revenues plus 25% of selected other revenues.

4th quarter revenue decline - 25% of baseline passenger revenues plus 25% of selected other revenues.

Cost Savings:

Fuel - 4-day period based on 100% reduction in flight schedule adjusted for fuel dumping and repositioning of aircraft. Other periods based on 20% reduction in flight schedule.

Personnel - No savings assumed for the month of September. Staggered layoffs (a total of 78,000 full time equivalents), adjusted for assumed severance packages, projected to become effective during November and continue through December.

Other - Includes landing fees, passenger services, commissions, and other variable costs. 4-day period assumed these costs were offset by additional costs incurred by airlines related to stranded passengers, etc. Remaining periods assumed variable cost savings would amount to 12% of revenue reduction.

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GAO Estimate

## GAO Estimate of Losses for Passenger Carriers (In millions, pretax)

### Scenario #2 (Assumes 4th Quarter Revenue Decline of 35%)

	Sept 11 - Sept 14	Sept 15 - Sept 30	Q/E Dec 31	Total
Revenue Decrease	\$1,163.1	\$2,129.7	\$7,937.9	<b>\$11,230.7</b>
Net Cost Savings				
Fuel	(174.9)	(144.4)	(830.5)	<b>(1,149.8)</b>
Personnel	0.0	0.0	(396.6)	<b>(396.6)</b>
Other	0.0	(255.6)	(952.5)	<b>(1,208.1)</b>
Total Cost Savings	<u>(174.9)</u>	<u>(400.0)</u>	<u>(2,179.6)</u>	<b><u>(2,754.5)</u></b>
Net Estimated Loss	<b><u>\$988.2</u></b>	<b><u>\$1,729.7</u></b>	<b><u>\$5,758.3</u></b>	<b><u>\$8,476.2</u></b>

Source: GAO analysis based on DOT Form 41 data.

Note: Other than revenue decline, all assumptions are the same as scenario #1.

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GAO Estimate

## GAO Estimate of Losses for Passenger Carriers (In millions, pretax)

### Scenario #3 (Assumes 4th Quarter Revenue Decline of 45%)

	Sept 11 - Sept 14	Sept 15 - Sept 30	Q/E Dec 31	Total
Revenue Decrease	\$1,163.1	\$2,129.7	\$10,205.8	<b>\$13,498.6</b>
Net Cost Savings				
Fuel	(174.9)	(144.4)	(830.5)	<b>(1,149.8)</b>
Personnel	0.0	0.0	(396.6)	<b>(396.6)</b>
Other	0.0	(255.6)	(1,224.7)	<b>(1,480.3)</b>
Total Cost Savings	<u>(174.9)</u>	<u>(400.0)</u>	<u>(2,451.8)</u>	<u><b>(3,026.7)</b></u>
Net Estimated Loss	<b>\$988.2</b>	<b>\$1,729.7</b>	<b>\$7,754.0</b>	<b>\$10,471.9</b>

Source: GAO analysis based on DOT Form 41 data.

Note: Other than revenue decline, all assumptions are the same as scenario #1.





### Industry Estimates versus GAO Estimates of Losses (In millions, pretax)

	Industry <sup>(1)</sup> optimistic	GAO <sup>(2)</sup>		
		Scenario #1	Scenario #2	Scenario #3
Sept 11 - Sept 14	\$ 1,320.0	\$ 988.2	\$ 988.2	\$ 988.2
Sept 15 - Sept 30	2,904.0	1,729.7	1,729.7	1,729.7
Q/E Dec 31	5,903.0	3,762.4	5,758.3	7,754.0
Total Estimated Loss	<b>\$10,127.0</b>	<b>\$6,480.3</b>	<b>\$8,476.2</b>	<b>\$10,471.9</b>

1) Industry estimates include both passenger and cargo carriers.

2) GAO estimates include passenger carriers only.



### Differences in Key Assumptions:

Revenue: ATA included cargo and passenger carriers in their revenue base whereas we only included passenger carriers. ATA also assumed greater reductions in other revenue than did we. In addition, ATA used somewhat more pessimistic projections of passenger traffic for the latter half of September.

Costs Savings: ATA used lower projections of fuel cost savings. In addition, ATA assumed effective dates for labor savings due to layoffs (after adjusting for severance) would be after December 31, 2001 and therefore, did not include any cost savings for labor. GAO assumed savings from layoffs (after adjusting for severance) would begin to take effect in November.



Analyst Estimates

## Analyst Estimates - Passenger Carriers Only

	Estimated Loss thru December 31, 2001 (pretax)
Paine Webber	\$5.1 billion
Deutsche Banc	\$6 billion
SalomonSmithBarney	\$8.5 billion



## Conclusions

- While the industry may be somewhat pessimistic in its optimistic estimate of losses, which totals \$10.1 billion through December 31, 2001, our analysis indicates that there is a reasonable basis to assume that at least \$5 billion in losses will be incurred through December 31, 2001.
- Because we did not assess cargo-only carrier estimates of losses, it is unknown whether such losses will equal or exceed their \$0.5 billion allocation.
- Carrier-by-carrier actual losses on a relative basis are likely to vary significantly. Therefore, some carriers may experience actual losses significantly higher than their allocated portions of the \$5 billion, while others may be lower.



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Conclusions, continued

- At present, there is no provision in the law to reallocate any portion of the formula amount for an individual carrier that is in excess of actual losses incurred by that carrier to other carriers whose actual losses may exceed their allocated amounts.
- There is also currently no provision to reallocate any amounts between cargo and passenger carriers should one group's actual losses be less than its total allocated share of the compensation and the other group's losses exceed its allocated share.
- Because of this inherent uncertainty, DOT is initially disbursing only 50% of the allocations, and is currently assessing how best to provide for any necessary adjustments to the amounts paid to each carrier.
- As you requested, we will be assessing the actual losses incurred by the major carriers compared to their allocations/payments received and report to you by July 1, 2002.

**GAO Contacts and Staff Acknowledgments**

**GAO Contacts**

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**Acknowledgments**

In addition to those named above, Triana Bash, Alan Belkin, Mark Connelly, Joseph Kile, Phillip McIntyre, Ruth Sessions, and Peggy Smith made key contributions to this letter.